

DEPARTMENT OF THE NAVY  
BUREAU OF NAVAL PERSONNEL  
WASHINGTON, D.C. 20370-5000

IN REPLY REFER TO

BUPERSINST 7510.2  
Pers 656E  
27 DEC 1994

BUPERS INSTRUCTION 7510.2

From: Chief of Naval Personnel

Subj: LOCAL COMMAND FISCAL OVERSIGHT AND REVIEW OF MORALE,  
WELFARE, AND RECREATION NONAPPROPRIATED FUND  
FACILITY PROJECTS

Ref: (a) OPNAVINST 1700.7D  
(b) SECNAVINST 5200.35C  
(c) OPNAV P-09B2-05-92  
(d) SECNAVINST 7510.7E  
(e) DOD 5500.7-R  
(f) BUPERSINST 7510.1  
(g) BUPERSINST 7043.1A  
(h) OPNAVINST 1700.14

Encl: (1) Fiscal Oversight and Review of Morale, Welfare and  
Recreation Nonappropriated Fund Facility Projects  
(2) Standards of Conduct and Government Ethics Sample  
Statement of Compliance

1. Purpose. To provide local activities with a program for fiscal oversight and review of nonappropriated fund (NAF) disbursements by any Morale, Welfare and Recreation (MWR) Nonappropriated Fund Instrumentality (NAFI) for MWR projects not wholly administered by the Naval Facilities Engineering Command (NAVFACENGCOM), Engineering Field Division (EFD), Engineering Field Detachment/Activity, area Public Works Office (PWO) or authorized agent, which are accomplished using local in-house work forces, Naval Construction Forces (NCF) or a combination thereof. This instruction does not apply to MWR projects funded with appropriated funds.

2. Cancellation. NAVMILPERSCOMINST 7510.1.

3. Policy. Fiscal oversight and review of all NAF facility projects, as defined above, shall be conducted following the guidance provided in enclosure (1).

4. Information. Reference (a) designated the Chief of Naval Personnel as the Program Manager for Navy MWR programs with the responsibility for establishing and issuing procedures for fiscal oversight and review of local command administered NAF facility improvements. The Bureau of Naval Personnel (BUPERS) MWR Division

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(Pers-65) functions in this capacity for Navy clubs, recreational services and other Navy program elements.

5. Action. Commanding officers shall:

a. Ensure enclosure (1) is available to all personnel assigned to perform local fiscal oversight and reviews of all NAF facility projects defined in paragraph 1.

b. Ensure that all applicable NAF facility projects for their activities are reviewed, audited and/or evaluated following the guidance provided in enclosure (1).

c. Use civilian or military personnel trained in conducting fiscal oversight and reviews of NAF facility projects. This may be done by using local internal audit, command evaluation and review, or other comparable staff; contracting with certified public accountants; using a separate audit board; or performing management control reviews as discussed in references (b) and (c). Refer to reference (d) whenever contracting with certified public accountants.

d. Use appropriated fund and/or personnel to support NAF facility project audits, when considered necessary, and not prohibited by law or regulation.

e. Refer to reference (e) and enclosure (2) for guidance regarding standards of conduct, ethics, post-government employment and related matters required of all Department of the Navy personnel. Commanding officers should ensure compliance by all key MWR managers and employees, particularly those directly involved in project administration, contracting, procurement and fund disbursement process, and personally complete a compliance statement.

6. Reports. A post-audit/review of each applicable centrally or locally funded NAF facility project and all disbursements must be completed within 90 days after receipt of the "final billing" with copies to the chain of command and BUPERS (Pers-656D). This is required for NAF facility projects accomplished by the MWR Department or other authorized in-house organizational element. Audit reports for locally and/or chain of command NAF funded projects and activity managed NAF projects should be forwarded to the chain-of-command level which approved the expenditure of funds. Reporting procedures should

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conform to reference (a) and the supplementary guidance provided in enclosure (1). The reporting requirements contained herein are exempt from reports control by SECNAVINST 5214.2B.

L. R. MARSH  
REAR ADMIRAL, U.S. NAVY  
DEPUTY CHIEF OF NAVAL PERSONNEL  
(ACTING)

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FISCAL OVERSIGHT AND REVIEW OF  
MORALE, WELFARE, AND RECREATION  
NONAPPROPRIATED FUND FACILITY PROJECTS

INTRODUCTION

1. Purpose. To provide guidance to local activities in the performance of fiscal oversight and post-audit reviews (hereafter called reviews) of nonappropriated fund (NAF) facility projects, as defined in paragraph 2, and as stated in reference (a), paragraph 5c(2).

2. Application. This instruction is applicable to all Morale, Welfare, and Recreation (MWR) projects which are accomplished using in-house work forces, Naval Construction Forces (NCF), or a combination thereof and supported with nonappropriated funds (NAF ) which are not wholly administered by the Naval Facilities Engineering Command (NAVFACENCOM), Engineering Field Division (EFD), Public Works Office (PWO), or authorized agent. It includes review of both facility construction and the procurement of project materials and equipment. Reference (f) enclosure (1), Section 5, also contains a program for reviewing the NAF contracting, procurement and disbursements process.

3. Objectives. For each authorized NAF facility project local management must be provided an independent unbiased review and constructive evaluation of the effectiveness and efficiency of fiscal responsibilities as applicable to NAF facility initiatives. Specific objectives are to:

a. Verify the adequacy of the NAF financial controls being applied; provide an effective assessment/evaluation of cost overruns; ensure expenditures were applicable to the approved project; ensure all charges have been properly documented and paid; and any excess funds were returned to the BUPERS Central Fund, major claimant, or the Commanding Officer Fund as may be applicable.

b. Verify whether final billing has been submitted to the sponsoring level of command and payment notification/project completion provided to the level of command approving the project execution.

c. Verify whether contractor/vendor/local command and/or inhouse work force(s) complied with the conditions and specifications of the project, work order(s) and/or contract(s) supporting the NAF project initiative with validated documentation for deviations.

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d. Verify whether any alterations or changes to the contract provisions were evidenced as properly executed contract modifications.

4. Standards of Conduct. At the outset of each authorized project, all people involved in project execution and disbursements should be reminded that, even if not specifically required to submit a DD Form 450 (Confidential Financial Disclosure Report), they should immediately inform their supervisors of any instances in which they have a financial interest in a business entity relative to which they are to exercise their judgement in performing official duties in the course of the review being initiated. In any instance where a person participating in a NAF facility project review has a financial interest, including stock or bond investment in a contractor under review, the supervisor should determine the extent of that involvement and whether or not the person should be continued on the assignment.

#### Section 1. Contract Award

1.1. Background. Authorization for centrally NAF funded MWR facility projects is provided by BUPERS (MWR Division Pers-65). The authorization letter states that projects not administered by the EFD, NAVFACENGCOM or authorized PWO must be reviewed (or post-audited) immediately upon receipt of final billing. The review is to be made by the local internal audit, command evaluation or other comparable staff. The results must be reported to, and approved by, the local commanding officer, Echelon II command and forwarded to BUPERS (Pers-65). This fiscal oversight and review program applies to NAF facility projects or segments thereof, including collateral equipment, not wholly administered by the NAVFACENGCOM, EFD, PWO or other authorized agent.

These projects may be constructed by other than NAVFACENGCOM or a PWO. They may be constructed by Naval Construction Forces (NCF) or a NAF activity using its own labor and equipment. Projects may also be accomplished using both commercial contractors and in-house work forces. However, reference (g) addresses the procurement policy for BUPERS NAF activities and requires all construction contracts in excess of \$2,000 to be administered by COMNAVFACENGCOM designated contracting officers per Navy facility acquisition directives/regulations. NAVFACENGCOM is responsible for the design and construction of facilities requiring development of detailed architectural and engineering specifications and accomplished through a government contract.

Nonappropriated fund contracting officers do not have warrant authority (e.g., sign construction contracts) for construction and/or repair contracts in excess of \$2,000.00. Projects shall not exceed

the dollar limit stated in the approval/authorization letter. Firm fixed price contracts are the preferred method of contracting.

## Section 2. Contract Administration

2.1 Progress and Quality. The reviewer must rely on progress and final inspections by the contracting officer or his/her representative to insure that the facility and equipment meet the contract specifications. Inspections are evidenced by a locally designed "punch list" or report, which is given to the contractor for use in correcting deficiencies. Deficiencies should be corrected in a timely manner. Failure to do so may be cause for an adjustment in the contract price or contract termination.

### 2.1.1

<u>Review Steps</u>	<u>Remarks or W/P Reference</u>
a. Review the contracting officer's inspection reports. Was the facility/built-in and collateral equipment visually inspected, tested, measured by the contracting officer or representative?	
b. How was the contractor advised of defects? Did the contractor correct the defects in a timely manner, or grant a price adjustment?	
c. Did the contractor provide a warranty? Have warranty claims been satisfied?	

2.2. Subcontracting. A contract may allow a contractor to subcontract specified parts of a contract. The contractor is responsible for the subcontractor's work, and the Commands' Contracting Officer (i.e., Staff Civil Engineer, Resident Officer In Charge of Construction (ROICC), or designee) is responsible for inspecting and accepting that work. Any deficiency must be directed to the appropriate command facility and/or contracting representative outlined above.

2.3. Financial Controls. The NAF facility project authorization letter contains the project dollar limit, as approved by the cognizant level(s) of command. The contract specifies the fixed cost and any progress payments. The contractor's invoices are examined to determine that the amounts invoiced are in accordance with the contract. The amounts paid must be supported by inspection reports, and should be in accordance with the contract and payment certifications. For BUPERS centrally funded NAF projects, a final bill must be submitted to the BUPERS (Pers-65) which states that all applicable charges have been paid, the total project cost, completion

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date, and designate any monies to be returned to the BUPERS Central Fund or Echelon II command, as applicable.

2.3.1

<u>Review Steps</u>	<u>Remarks or W/P Reference</u>
a. Verify amount authorized, contract amounts and progress payments, invoiced amounts and payments approved and made. Determine the reason for any differences.	
b. Compare amounts approved for payment to inspection reports. Were any amounts to be retained to assure performance? Was the payment of retained amounts authorized and justified by the contractor's correction of deficiencies?	
c. For projects procured with Central NAF Funds verify whether:	
(1) All bills applicable to the project were submitted for reimbursement.	
(2) All reimbursements were applicable to the approved project.	
(3) Any billing adjustments were passed back to the sponsoring echelon of command or BUPERS Central Fund unless otherwise authorized in writing.	
(4) All funds not expended for the project were transferred back to the BUPERS Central Fund or retained as specified through written correspondence for the sponsoring level of command.	
(5) All payments and reimbursement requests were processed promptly and were charged to the correct asset or expense account.	
d. For projects procured with a major claimant's or other echelon command's funds, determine whether excess funds were returned to the major claimant, or other proper disbursing authority when applicable.	

2.4 Modifications And Change Orders. If there is a change in the scope of a contract, or if any built-in and/or collateral equipment is to be modified or is different from that specified, a written change order must be properly authorized and signed by both parties. A fixed price contract cannot be modified just because the contractor's cost will exceed the estimate used to compute the price. The reason for each modification must be justified, and must be in the Government's



best interest. Poorly documented modifications are indicative of ineffective controls and enable waste and fraud to occur.

Each modification must be identified to a specific contractual specification, clause or provision or by supplemental agreement by both parties. An approved and documented contract modification must be used to change the scope of a contract.

2.4.1

<u>Review Steps</u>	<u>Remarks or W/P Reference</u>
a. Review the contracting officer's file to determine whether the modifications are identified to a contract specification or clause, are adequately justified and in the government's best interest.	
b. Verify the computation of any change in the contract price or payment terms.	

2.5 Termination and Settlement. Construction contracts MUST contain dispute and termination clauses. Disputes can arise when, in the NAF manager's or contracting officer's opinion, the contractor's performance varies from the contract specifications. The contracting officer should attempt to resolve the dispute. Failing to do this, the contracting officer should decide the matter in accordance with the dispute and default clauses of the contract. The default clause may include a provision for liquidated damages. The person assigned should review the application of liquidated damages when a contractor defaults. Questions regarding the meanings or interpretation of the contract should be referred to legal counsel for opinion. Termination may be for the Government's convenience. The termination procedure described in reference (g), Chapter 7, paragraph 705, is applicable.

2.5.1

<u>Review Steps</u>	<u>Remarks or W/P Reference</u>
a. If the disputes and termination clauses were invoked, ascertain whether the procedures used conform to reference (f). If not, determine the reason.	
b. Verify any price adjustments or liquidated damages resulting from the change or termination of the contract. Identify and document the reasons for any differences.	

Section 3. Property Administration

Nonexpendable property ordinarily retains its original identity, is not consumed, and has a life expectancy of more than 2 years. Furniture, fixtures, equipment and vehicles having a unit acquisition value of \$1,000 or more, and buildings and facilities construction costing \$1,000 or more (but less than \$200,000), shall be recorded on the activity's local property and depreciation records and in the general ledger, as specified in the Recreation and Mess Centralized Accounting System (RAMCAS) User Handbook. Additionally, renovation and construction projects funded from the MWR/NEX Board Of Directors (BOD) Trust Fund or Navy Central Fund shall be recorded on the station's plant property account and depreciated in accordance with reference (h).

3.1

<u>Review Steps</u>	<u>Remarks or W/P Reference</u>
a. Verify the completed construction and/or collateral equipment to the property and depreciation records and general ledger.	
b. Ascertain that the asset is recorded as required by the RAMCAS at its acquisition cost and accurately depreciated. Record any discrepancy and document the reason.	
c. For projects procured with Central NAF determine whether the procured equipment conforms with the collateral equipment list approved by BUPERS and is located in the facility for which it was purchased.	
d. Verify whether expendable items purchased as part of each NAF facility project were charged to the proper expense or prepaid account.	
e. Verify central depreciation expense and accumulated depreciation is posted to the proper RAMCAS accounts where applicable.	

APPENDIX

REFERENCES

GAO GOVERNMENT AUDITING STANDARDS	Standards of Audit of Governmental Organizations, Programs, Activities and Functions, by the Comptroller General of the United States
OPNAVINST 1700.14	Revenue Assessment System (RAS) For Navy Morale, Welfare, and Recreation (MWR) And Navy Exchange (NEX) Programs
SECNAVINST 5200.35C	Department of the Navy Management Control Program
DOD 5500.7-R	Joint Ethics Regulation
SECNAVINST 7510.7E	Department of the Navy Internal Audit
OPNAV P-09B2-05-92	CNO Management Control Program Manual
OPNAVINST 1700.7D	Responsibility for Morale, Welfare and Recreation (MWR) Programs in the Navy
OPNAVINST 5000.52A	Command Evaluation Program
BUPERSINST 7043.1A	Procurement Policy for Bureau of Naval Personnel Nonappropriated Fund Activities
BUPERSINST 7510.1	Local Fiscal Oversight and Review of Nonappropriated Fund Instrumentalities (NAFIs)
BUPERS RAMCAS USER HANDBOOK	Recreation and Mess Centralized Accounting System (RAMCAS) User Handbook

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OPNAVINST 11000.8G	Self-Help Program In Support Of The Navy Real Property Maintenance Program
NAVFACINST 11010.69	Procedures For Management Of Nonappropriated Fund (NAF) Projects
NAVCOMPT MANUAL Section III: (Paragraph 075530 General)	Budget Policy For Construction
NAVFAC P-68	Contracting Manual
OPNAVISNT 1001.13	Utilization Of Reserve Naval Construction Force Units
NAVFACINST 5450.82	Navy Public Works Centers: Promulgation Of Functions and Tasks
Federal Acquisition Regulation (Part 36)	Construction And Architect- Engineer Contracts
Federal Acquisition Regulation (Part 1, Subpart 1.6)	Contracting Authority And Responsibilities

STANDARDS OF CONDUCT  
AND GOVERNMENT ETHICS

SAMPLE STATEMENT OF COMPLIANCE

MEMORANDUM FOR \_\_\_\_\_

Subj: STANDARDS OF CONDUCT FOR DEPARTMENT OF THE NAVY  
PERSONNEL

Ref: (a) DOD 5500.7-R

1. To maintain public confidence in the integrity of the Department of the Navy, which is essential to the performance of its mission, I have reviewed reference (a) and am aware of the following standards of conduct:

a. I will avoid any action, whether or not specifically prohibited, which might result in or reasonably be expected to create the appearance of:

- o Using public office for private gain;
- o Giving preferential treatment to any person or entity;
- o Impeding Government efficiency or economy;
- o Losing complete independence or impartiality;
- o Making a Government decision outside official channels;

or

o Adversely affecting the confidence of the public in the integrity of the Government.

b. I am aware of the requirement to not engage in any activity or acquire or retain any financial interest, which would result in a conflict between my private interest and the public interest of the United States related to my duties.

c. I will not engage in any activity that might result in or reasonably be expected to create the appearance of a conflict of interest.

d. I am aware of the following prohibitions against:

- o Accepting gifts from prohibited sources. \*
- o Using my official position to influence any person to provide any private benefit.

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- o Using inside information to further a private gain.
  - o Using my rank, title, or position for commercial purposes.
  - o Using outside employment or participation in any activity that is incompatible with my duties or may bring discredit to the Navy.
  - o Taking or using Government property or services for other than officially approved purposes.
  - o Giving gifts to my superiors or accepting them from my subordinates. \*
  - o Conducting official business with persons whose participation in the transaction would be in violation of law.
- \* Consult paragraph 6 of BUPERSINST 7510.2 for situations considered to fall outside this rule.

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I attest, by my signature, that I will bring any questionable future decisions or actions that may place me in violation of the provisions of reference (a) to the attention of the proper legal authority or ethics counselor for prior review and proper disposition.

(Signed)  
(Position Title)

Copy to:  
(Appropriate Supervisor)